

**Warren County Board of Education**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003

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The discussion and analysis of Warren County School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to review the school district's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Government issued in June 1999.

**Financial Highlights**

- In total, net assets increased \$3,110,621. Net assets of governmental activities increased by \$3,541,272, while net assets of business-type activity decreased by \$430,651. These variances are primarily the result of new building construction within the school district, and an increase in sick leave obligations.
- General revenues accounted for \$44,412,239 in revenue or 68 percent of all governmental revenues. Program specific revenues in the form of grants and contributions accounted for \$7,944,931 or 12.3 percent of total revenues of \$64,529,589.
- Total assets of governmental activities decreased \$1,356,387. Capital assets increased \$3,320,865 due to construction projects with a corresponding cash decrease of \$4,548,211.
- The School District had \$68,934,850 in expenses related to governmental activities; only \$11,079,446, of these expenses were offset by program specific charges for services, grants, and contributions. General revenues (primarily local taxes and state SEEK allocations), were adequate to provide these programs.
- Construction continued during the year with additions completed at Lost River Elementary, Warren Elementary, Rockfield Elementary, Rich Pond Elementary and offices for Support Services, totaling \$7,767,998. At the end of the fiscal year, construction was continuing at the Bus Garage and the Phase 2 Renovation at North Warren Elementary in the amount of \$1,150,209, which is the amount of construction in progress at June 30, 2003.

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**Using this Comprehensive Annual Financial Report (CAFR)**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Warren County School District as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The **Statement of Net Assets and Statement of Activities** provide information about the activities of the whole school district, presenting both an aggregate view of the school district's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the school district's major funds with all other non-major funds presented in total in one column. The major funds for the school district are the general fund, special revenue fund, capital projects fund and the occupational tax office fund.

**Reporting the School District as a Whole**

One of the most important questions asked about the school district is "how did we do financially during 2003?" The **Statement of Net Assets** and the **Statement of Activities**, which appear first in the school district's financial statements, report information on the school district as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received and paid.

These two statements report the school district's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the school district as a whole, the financial position has improved or diminished. However, the school district's goal is to provide services to our students, not to generate profits as a commercial entities do. One must consider many other non-financial factors, such as the school district's property tax base, current property tax laws in Kentucky restricting revenue growth, required educational programs and other factors.

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In the **Statement of Net Assets** and the **Statements of Activities**, the school district is divided into two distinct kinds of activities:

**Government Activities** - most of the school district's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and other activities.

**Business-type Activities** - these services are provided on a charge for goods provided or services delivered basis to recover all of the related expenses. The school district's food service operation is reported as business activities.

### **Reporting the School District's Most Significant Funds**

#### **Fund Financial Statements**

The analysis of the school district's major funds begins on page 15. Fund financial reports provide detailed information about the school district's major funds. The school district uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the school district's major funds.

**Governmental Funds** - most of the school district's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end and available for spending in future periods. These funds are reported using an accounting method called accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the school district's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.

**Proprietary Funds** - proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match.

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	<b>Governmental Activities</b>		<b>(Table 1) Net Assets Business-Type Activities</b>		<b>Total</b>	
	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>
<b>Assets</b>						
Current and Other Assets	\$15,800,711	\$11,123,459	\$847,498	\$710,159	\$16,648,209	\$11,833,618
Capital Assets	<u>86,214,225</u>	<u>89,535,090</u>	<u>4,563,084</u>	<u>5,559,690</u>	<u>90,777,309</u>	<u>95,094,780</u>
Total Assets	<u>\$102,014,936</u>	<u>\$100,658,549</u>	<u>\$5,410,582</u>	<u>\$6,269,849</u>	<u>\$107,425,518</u>	<u>\$106,928,398</u>
<b>Liabilities</b>						
Long-Term Liabilities	56,104,310	53,153,029			56,104,310	53,153,029
Other Liabilities	<u>1,167,850</u>	<u>970,324</u>	<u>2,923</u>	<u>41,614</u>	<u>1,170,773</u>	<u>1,011,938</u>
Total Liabilities	<u>\$57,272,160</u>	<u>\$54,123,353</u>	<u>\$2,923</u>	<u>\$41,614</u>	<u>\$57,275,083</u>	<u>\$54,164,967</u>
<b>Net Assets</b>						
Invested in Capital Assets net of Debt	34,424,225	34,424,225	4,563,084	5,559,690	38,987,309	39,983,915
Restricted	7,260,285	6,801,343			7,260,285	6,801,343
Unrestricted(Deficit)	<u>3,058,266</u>	<u>5,309,628</u>	<u>844,575</u>	<u>668,545</u>	<u>3,902,841</u>	<u>5,978,173</u>
<b>Total Net Assets</b>	<u>\$44,742,776</u>	<u>\$46,535,196</u>	<u>\$5,407,659</u>	<u>\$6,228,235</u>	<u>\$50,150,435</u>	<u>\$52,763,431</u>

Total Assets decreased \$497,120. Total Net Assets increased by \$2,612,996 due to increase in Unrestricted Fund Balance and a decrease in Debt Liability.

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	(Table 2) Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2002	2003	2002	2003	2002	2003
<b>Program Revenues:</b>						
Charges for Services	\$4,282	\$6,291	\$1,956,115	\$2,079,518	\$1,960,397	\$2,085,809
Operating Grants/Contribution	6,069,629	8,711,369	2,551,124	2,163,493	8,620,753	10,874,862
Capital Grants/Contribution	2,050,196	2,361,786	-	-	2,050,196	2,361,786
General Revenues:						
Taxes	20,381,892	22,042,347	-	-	20,381,892	22,042,347
State Aid-formula grants	27,860,686	29,651,552	-	-	27,860,686	29,651,552
Investment Earnings	360,009	201,582	11,490	7,268	371,499	208,850
Flexible Funding Refund	250,270	2,235	-	-	250,270	2,235
Proceeds from Issuance of Bonds	7,511,357	-	-	-	7,511,357	-
Miscellaneous	362,107	1,132,493			362,107	1,132,493
State on Behalf Payments	-	8,235,030		380,708	-	8,615,738
Gain(Loss) on sale of equipment	(111,720)	72,253	(8,046)	(8,515)	(119,766)	63,738
Loss Compensation	6,523	59,184	-	-	6,523	59,184
<b>Total Revenue and Transfers</b>	<u>64,745,231</u>	<u>72,476,122</u>	<u>4,510,683</u>	<u>4,622,472</u>	<u>69,255,914</u>	<u>77,098,594</u>
<b>Program Expenses</b>						
Instruction	38,523,386	45,632,917	-	-	38,523,386	45,632,917
Support Services:						
Student	1,281,749	1,542,063			1,281,749	1,542,063
Instructional Staff	2,113,903	2,574,752			2,113,903	2,574,752
District Administration	611,922	909,614			611,922	909,614
School Administration	2,535,639	3,220,289			2,535,639	3,220,289
Business	546,926	570,363			546,926	570,363
Facility Operations/Maintenance	5,862,336	5,993,314			5,862,336	5,993,314
Student Transportation	5,129,983	4,516,799			5,129,983	4,516,799
Central Office	583,843	622,394			583,843	622,394
Non-Instructional	807,871	930,867			807,871	930,867
Facility Acquisition/Construction						
Day Care		-	-	43,807	-	43,807
Interest on Long-Term Debt	2,282,742	2,421,478	-	-	2,282,742	2,421,478
Depreciation-Unallocated	-	-	-	-	-	-
Food Service	-	-	4,564,142	5,009,316	4,564,142	5,009,316
<b>Total Expense and Transfers</b>	<u>60,280,300</u>	<u>68,934,850</u>	<u>4,564,142</u>	<u>5,053,123</u>	<u>64,844,442</u>	<u>73,987,973</u>
<b>Increase or (Decrease) in Net Assets</b>	<u>\$4,464,931</u>	<u>\$3,541,272</u>	<u>(\$53,459)</u>	<u>(\$430,651)</u>	<u>\$4,411,472</u>	<u>\$3,110,621</u>

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**Governmental Activities**

Instruction comprises 66% of governmental program expenses. Support services expenses make up 30% of government expenses. The remaining unallocated expense for interest accounts for the remaining 4% of total government expense.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. The Total Cost of Services includes for the first time in 2003, State On-Behalf Payments in the amount of \$8,235,030.

(Table 3)  
**Governmental Activities**

	<b>Total Cost of Services 2002</b>	<b>Total Cost of Services 2003</b>	<b>Net Cost of Services 2002</b>	<b>Net Cost of Services 2003</b>
Instruction	\$38,523,386	\$45,632,917	\$34,126,857	\$38,408,798
Support Services	19,474,172	20,880,455	17,796,790	19,386,914
Other	-	-	-	-
Facilities acquisition/construction	-	-	(1,435,364)	(1,807,478)
Interest on Long Term Debt	2,282,742	2,421,478	1,667,910	1,867,170
Depreciation-Unallocated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Expenses</b>	<b><u>\$60,280,300</u></b>	<b><u>\$68,934,850</u></b>	<b><u>\$52,156,193</u></b>	<b><u>\$57,855,404</u></b>

**Business-Type Activities**

The business-type activities are food service and day care. These programs had revenues of \$4,622,472. and expense of \$5,053,123 for fiscal year 2003. Of the revenues, \$2,079,518 was charges for services, \$2,163,493 was from State and Federal grants, \$7,268 from investment earnings, State On-Behalf Payments of \$380,708 and Loss on Sale of Equipment \$8,515. Business activities receive no support from tax revenues. The school district will continue to monitor the charges and costs of these activities. If it becomes necessary, the school district will increase the charges for these activities..

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**The School District's Funds**

Information about the school district's major funds start on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$64,654,715 and expenditures and other financing uses of \$69,236,649. Net changes in fund balances for the year was most significant in General Fund \$3,622,818, Special Revenue Fund (\$385,121), and Capital Projects Fund (\$7,836,849).

The increase in General Fund was due to a decrease in expenditures for facility operations and increase in local tax revenue and State SEEK payments.. The decrease in Special Revenue Fund was a declining project balance for KETS (School Technology) during the year.. The Capital Projects Fund decreased due to the payment of construction funds for additions to 4 elementary schools during the year.

**General Fund-Budget Highlights**

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

A variance comparison is presented between the final budgeted amounts and the actual (GAAP Basis) amounts. For the General Fund revenues were budgeted at \$41,172,354 with actual amounts of \$44,448,828 and transfers from the Occupational Tax Office of \$4,565,000 for a total actual of \$49,013,828. Budgeted expenditures of \$49,106,501 compare with actual expenditures of \$45,391,010, a difference of \$3,715,491. Of this difference, \$1,720,700 was the budgeted contingency expense.

This is the second year that the Occupational Tax Office has been shown as a component part of the Warren County School District's annual financial report.

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**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2003 the school district had \$90,777,309 invested in land, buildings, equipment and construction in progress, \$86,214,22 in governmental activities. Table 4 shows fiscal year 2003 balances compared to 2002.

(Table 4)  
**Capital Assets at June 30**  
**(Net of Depreciation)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>
Land	\$2,512,600	\$2,512,600	\$-	\$-	\$2,512,600	\$2,512,600
Buildings and Improvements	74,742,439	79,366,883	3,986,859	5,077,905	78,729,298	84,444,788
Technology	2,467,209	2,319,478	67,972	48,865	2,535,181	2,368,343
Vehicles	3,908,414	2,805,330	-	-	3,908,414	2,805,330
Equipment	786,519	1,380,590	508,254	432,920	1,294,773	1,813,510
Construction in Progress	<u>1,797,043</u>	<u>1,150,209</u>	<u>-</u>	<u>-</u>	<u>1,797,043</u>	<u>1,150,209</u>
<b>Total</b>	<b><u>\$86,214,224</u></b>	<b><u>\$89,535,090</u></b>	<b><u>\$4,563,085</u></b>	<b><u>\$5,559,690</u></b>	<b><u>\$90,777,309</u></b>	<b><u>\$95,094,780</u></b>

There were large increases in Buildings and Improvements due to the completion of additions at 4 elementary schools. These construction projects were completed and accumulated costs were removed from construction in progress and classified as Buildings and Improvements.

Renovations/Additions continue at North Warren Elementary and the Bus Garage. These unfinished project costs remain in construction in progress at June 30, 2003.



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**Debt**

At June 30, 2003 the school district had \$48,650,000 in bonds outstanding, of this amount \$10,507,834 are to be paid from the Kentucky School Facilities Of Construction Commission funding provided by the State of Kentucky. A total of \$3,280,000 is due within one year.

At June 30, 2002 the school district had \$51,790,000 in bonds outstanding, of this amount \$11,767,513 were to be paid from Kentucky School Facilities Of Construction Commission funding. The increase during the 2002 fiscal year is due to a \$7,685,000 bond to fund the additions to 4 elementary schools.

**District Challenges for the Future**

Warren County School District's financial status has improved significantly during the last fiscal year. This improvement is the result of continued increases in both local and state funding, and a delay in a major expenditure (school buses) during the year.

The school district has experienced an annual growth in student enrollment of 70-190 students per year, for the last five years. The school district has prepared for an increase in enrollment by building new schools and renovating and adding to existing schools. These new facilities come with increased utility costs and additional personnel cost (both administrative and support staffs). These new buildings also have a cost for computers, library books, instructional materials, and other items that can only be paid from the General Fund. These costs along with the need to add additional buildings in the next few years will create more challenges for the school district.

On September 11, 2003 our board approved an additional growth nickel (5.8 cents per \$100 assessed value) property tax increase, restricted to construction funding. This additional nickel tax will result in approximately \$1.9 million annually in additional local funds. This increase in tax will also result in an additional state funding match of approximately \$700,000 per year (based on available state funds). Our current tax rate of 38 cents now includes a total of 17.4 cents that are restricted to construction/bond payments. Given the current facilities plans needs that have been identified, this increase in local and state funds available for construction will allow the school district to meet our currently identified construction needs.

The second factor facing the School District is that of adequate state funding. At the time of this writing, the anticipated current year budget shortfall is \$500-700 million. The impact, if any, from this shortfall is difficult to determine at this time.

With careful planning and monitoring of our finances, Warren County School District's goal is to continue to provide a quality education for our students and a secure financial future for the school district.

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**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the school district's finances and to show the school district's accountability for the money it receives. If you have any questions about this report or need additional information contact Willie McElroy, Treasurer at Warren County School District, 303 Lovers Lane, P.O. Box 51810, Bowling Green, KY 42102-6810 or email at [wmcelroy@warren.k12.ky.us](mailto:wmcelroy@warren.k12.ky.us)